
GOVERNMENT OF THE DISTRICT OF COLUMBIA



**DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT**

TESTIMONY OF
JALAL GREENE
DIRECTOR

**PUBLIC ROUNDTABLE ON PR 16-668
“HOME PURCHASE ASSISTANCE PROGRAM APPROVAL
RESOLUTION OF 2006”**

COMMITTEE ON ECONOMIC DEVELOPMENT
THE HONORABLE SHARON AMBROSE, CHAIRPERSON
COUNCIL OF THE DISTRICT OF COLUMBIA

THURSDAY, MARCH 23, 2006

JOHN A. WILSON BUILDING
1350 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20004
10:00 A.M.

GOOD MORNING CHAIRPERSON AMBROSE AND MEMBERS OF THE COMMITTEE ON ECONOMIC DEVELOPMENT. I AM JALAL GREENE, DIRECTOR OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD). HERE AT THE TABLE WITH ME TODAY IS ROBERT MULDERIG, DEPUTY DIRECTOR FOR RESIDENTIAL AND COMMUNITY SERVICES, WHO WILL ASSIST IN ANSWERING QUESTIONS YOU MAY HAVE.

I AM PLEASED TO APPEAR BEFORE THE COMMITTEE TODAY IN SUPPORT OF PR 16-668, “HOME PURCHASE ASSISTANCE PROGRAM APPROVAL RESOLUTION OF 2006.” AS YOU KNOW, THE HOME PURCHASE ASSISTANCE PROGRAM, OR HPAP, HAS MORE THAN A QUARTER CENTURY HISTORY OF ASSISTING VERY LOW-, LOW- AND MODERATE-INCOME DISTRICT RESIDENTS TO BECOME FIRST-TIME HOMEBUYERS IN THE DISTRICT.

AS WE ALL KNOW, THE PRICE OF A HOME IN THE DISTRICT HAS INCREASED DRAMATICALLY IN A SHORT PERIOD OF TIME. THIS ESCALATION IN PRICES HAS RESULTED IN A DECLINE IN THE NUMBER OF HOMES FOR SALE AT PRICES AT WHICH HOMEBUYERS PLANNING TO USE HPAP ASSISTANCE ARE TYPICALLY ABLE TO PURCHASE. FOR EXAMPLE, THE NUMBER OF HOMES IN THE DISTRICT SELLING AT PRICES LESS THAN \$250,000 DROPPED FROM ROUGHLY 1/3 OF ALL UNITS SOLD (3,280 OF 8,518) TO 1/4 OF ALL UNITS SOLD (2,475 OF 9,139) BETWEEN 2003 AND 2004. HOMES SELLING FOR LESS THAN \$160,000 DECLINED

FROM 16.6% IN 2003 (1,412 OF 8,518) TO ONLY 9% IN 2004 (828 OF 9,139).

DURING THIS PERIOD, THE DEPARTMENT HAS TRIED TO MAKE ADJUSTMENTS TO THE HPAP PROGRAM TO ENSURE ITS CONTINUING VIABILITY IN THIS MARKETPLACE. IN 2004, THE COUNCIL APPROVED THE ADMINISTRATION'S REQUEST TO INCREASE THE MAXIMUM HPAP LOAN AMOUNT—THE ASSISTANCE OFFERED TO RESIDENTS AT 50% OF AREA MEDIAN INCOME OR LESS—FROM \$20,000 TO \$30,000. IN OCTOBER 2005, WE SUPPLEMENTED THE HPAP PROGRAM WITH ASSISTANCE UNDER THE FEDERAL AMERICAN DREAM DOWNPAYMENT INITIATIVE (ADDI), THEREBY INCREASING THE LOAN ASSISTANCE TO THOSE VERY LOW INCOME HOUSEHOLDS TO A MAXIMUM OF \$40,000. AND THAT IS WHERE WE ARE TODAY.

UNFORTUNATELY, THESE CHANGES COULD NOT KEEP PACE WITH A REAL ESTATE MARKET IN WHICH MANY HOMES INCREASED IN PRICE BY MORE THAN \$100,000. AS A RESULT, THE DEPARTMENT HAS WITNESSED A STEADY DECLINE IN THE NUMBER OF HOUSEHOLDS ABLE TO BE SERVED BY HPAP LOANS IN RECENT YEARS, FROM 336 IN FY 2002, TO 223 IN 2003, TO 183 IN 2004, TO 170 IN FY 2005. THE GREATEST DECLINE IN HPAP LOANS CLOSED IS AMONG VERY LOW INCOME BORROWERS, WHICH FELL FROM 190 IN FY 2002 TO 74 IN FY 2005.

MADAM CHAIR, THE DEPARTMENT IS COMMITTED TO MAKING CHANGES TO THE HOME PURCHASE ASSISTANCE PROGRAM THAT WILL SIGNIFICANTLY INCREASE ITS VIABILITY IN THE CURRENT REAL ESTATE MARKET. THE PROPOSED AMENDMENTS ARE SPECIFICALLY DESIGNED TO PROVIDE MORE ASSISTANCE TO HOMEBUYERS ON THE LOWER END OF THE ECONOMIC SCALE, WHICH THIS YEAR COULD MEAN AS MUCH AS \$70,000 IN ASSISTANCE. THE ADMINISTRATION HAS SUBMITTED FOR THE COUNCIL’S APPROVAL CHANGES TO THE MUNICIPAL REGULATIONS GOVERNING THE HPAP PROGRAM. THE MOST SIGNIFICANT ELEMENTS ARE THE FOLLOWING FIVE ITEMS:

- 1. FIRST, TO ALLOW DHCD TO ESTABLISH HPAP ASSISTANCE LEVELS EACH YEAR.**

THE DEPARTMENT WOULD ESTABLISH ASSISTANCE LEVELS FOR HOUSEHOLDS AT VARYING INCOME LEVELS AND FAMILY SIZES BASED ON REAL ESTATE MARKET TRENDS—RATHER THAN HAVING THE ASSISTANCE LEVELS CODIFIED IN THE REGULATIONS. HAVING THE ASSISTANCE LEVELS EMBEDDED IN THE REGULATIONS SIGNIFICANTLY HAMPERS THE DEPARTMENT’S ABILITY TO RESPOND QUICKLY TO MARKET CHANGES WITH APPROPRIATE LEVELS OF HOMEBUYER ASSISTANCE.

LET ME DESCRIBE FOR YOU THE PROCESS DHCD WOULD USE TO EACH YEAR TO IMPLEMENT THIS CHANGE. IN THE SECOND QUARTER OF EACH FISCAL YEAR, FOLLOWING RELEASE OF THE AREA MEDIAN INCOME DATA BY HUD, DHCD WOULD REVIEW ACTUAL HOME SALES IN THE DISTRICT DURING THE PAST YEAR TO DETERMINE THE LOWEST PRICE AT WHICH THERE WERE SOLD A NUMBER OF HOMES SUFFICIENT TO MEET THE ANNUAL NEEDS OF HPAP BORROWERS. DHCD CALLS THAT PRICE POINT THE “DESIRED PURCHASING POWER” THAT WE WANT TO PROVIDE TO ALL OUR HPAP APPLICANTS. WE ANTICIPATE THAT FIGURE TO BE APPROXIMATELY \$235,000 THIS YEAR. TO THE EXTENT POSSIBLE, DHCD WOULD TRY TO PROVIDE ENOUGH ASSISTANCE TO HOUSEHOLDS OF ANY INCOME LEVEL FROM 30% UP TO 110% OF AREA MEDIAN INCOME TO PURCHASE A HOME SELLING FOR THAT DESIRED PURCHASING PRICE. ASSISTANCE LEVELS WILL BE TAILORED FOR THE ENTIRE RANGE OF INCOMES, IN INCREMENTS OF \$1,000, AND ADJUSTED FOR HOUSEHOLD SIZE.

AS A RESULT, HPAP ASSISTANCE WOULD BE SIGNIFICANTLY GREATER FOR HOUSEHOLDS AT THE LOWEST INCOME LEVELS, AND MUCH LESS FOR HOUSEHOLDS AT HIGHER LEVELS OF INCOME, APPROACHING 110% OF AREA MEDIAN INCOME. WITH THIS RESTRUCTURING, THE HPAP PROGRAM WOULD MORE

APPROPRIATELY TARGET RESOURCES TO HOUSEHOLDS WITH THE GREATEST NEED. THE TABLE OF ALL ASSISTANCE LEVELS, PEGGED TO THE MARKET PRICE OF HOUSING, WILL BE PUBLISHED IN THE DC REGISTER AT LEAST ONCE EACH YEAR.

IT IS IMPORTANT TO NOTE THAT THERE STILL WILL NEED TO BE AN OVERALL PER-CLIENT CAP ON HPAP ASSISTANCE. ALL HOUSEHOLDS OF VERY LOW INCOME WOULD BE ELIGIBLE FOR HPAP ASSISTANCE UP TO THE CAP, WHICH DHCD ANTICIPATES WOULD BE \$70,000 THIS YEAR.

WE BELIEVE THAT THE PROPOSED CHANGES TO ASSISTANCE LEVELS WILL SIGNIFICANTLY ENHANCE DHCD'S ABILITY TO ASSIST LOW- AND VERY LOW-INCOME HOUSEHOLDS IN BECOMING HOMEOWNERS.

2. SECOND, TO REDUCE THE MINIMUM REQUIRED CONTRIBUTION OF HPAP HOMEBUYERS.

REDUCING THE REQUIRED CONTRIBUTION WILL ALIGN HPAP MORE CLOSELY WITH EXISTING FIRST MORTGAGE PRODUCTS AVAILABLE IN THE MARKETPLACE. MANY MORTGAGE LENDING INSTITUTIONS NOW OFFER MORTGAGE PRODUCTS WITH A MINIMUM DOWNPAYMENT CONTRIBUTION OF \$500, DEPENDING ON HOUSEHOLD INCOME. UNDER EXISTING REGULATIONS, AN HPAP

APPLICANT MAY CURRENTLY BE REQUIRED TO CONTRIBUTE AS MUCH AS 3% OF THE HOME PURCHASE PRICE TO THE DOWNPAYMENT. WE PROPOSE TO REDUCE THE MINIMUM CONTRIBUTION REQUIRED OF ALL HPAP HOMEBUYERS TO THE GREATER OF \$500 OR 50% OF THE HOMEBUYER'S CASH ASSETS IN EXCESS OF \$3,000. THESE AMENDMENTS WILL ALLOW HPAP HOMEBUYERS TO RETAIN MORE FUNDS THAT MAY BE NEEDED FOR UNEXPECTED HOUSEHOLD MAINTENANCE.

3. THIRD, TO EXTEND THE HPAP “NOTICE OF ELIGIBILITY” PERIOD.

AN HPAP APPLICANT WHO HAS BEEN APPROVED FOR PROGRAM ASSISTANCE RECEIVES A “NOTICE OF ELIGIBILITY”, WHICH PROVIDES EVIDENCE OF LOAN QUALIFICATION TO A SELLER, SIMILAR TO A FIRST TRUST “MORTGAGE QUALIFICATION STATEMENT.” THE HPAP NOTICE OF ELIGIBILITY CURRENTLY EXPIRES 90 DAYS AFTER ISSUANCE. RECENT EXPERIENCE HAS SHOWN THAT THE TIME NEEDED BY HPAP APPLICANTS TO IDENTIFY AND BID SUCCESSFULLY ON A HOME IS OFTEN IN EXCESS OF 90 DAYS. EXTENDING THE NOTICE OF ELIGIBILITY PERIOD TO 180 DAYS WILL ENHANCE THE LIKELIHOOD THAT HPAP APPLICANTS WILL BE MORE SUCCESSFUL IN THEIR EFFORTS TO FIND AND PURCHASE HOMES.

4. FOURTH, TO EASE REPAYMENT TERMS.

DHCD PROPOSES TO ESTABLISH FOR ALL HPAP BORROWERS THE LOAN REPAYMENT TERMS CURRENTLY IN EFFECT ONLY FOR THE LOWEST INCOME BORROWERS, THAT IS, A DEFERRAL OF ALL PAYMENTS FOR A PERIOD OF FIVE YEARS, WITH THE LOAN AMORTIZED AT 0% FOR A PERIOD OF 40 YEARS THEREAFTER. THIS WILL ASSIST ALL ELIGIBLE HOMEBUYERS TO QUALIFY FOR MORE FIRST TRUST MORTGAGE ASSISTANCE AND ASSIST PURCHASERS TO INVEST IN MAINTAINING THEIR NEW HOME.

5. AND FIFTH, TO CONFORM THE REGULATIONS REGARDING RESIDENCY TO BE CONSISTENT WITH THE STATUTE.

THIS WILL INVOLVE CONVERTING TO A PREFERENCE THE CURRENT HPAP REQUIREMENT FOR RESIDENCY IN THE DISTRICT FOR A MINIMUM OF ONE YEAR PRIOR TO HPAP ASSISTANCE.

THE STATUTE THAT UNDERLIES THE HPAP PROGRAM REQUIRES ONLY THAT DISTRICT RESIDENT APPLICATIONS FOR ASSISTANCE BE TREATED AS A PRIORITY, NOT THAT NON-RESIDENT APPLICATIONS BE EXCLUDED ENTIRELY. GIVEN OUR CURRENT FOCUS ON EXPANDING THE DISTRICT'S RATE OF HOMEOWNERSHIP, WHILE AT THE SAME TIME ATTRACTING NEW RESIDENTS, DHCD

PROPOSES THAT CERTAIN NON-RESIDENTS BE ELIGIBLE TO APPLY FOR HPAP ASSISTANCE, WITH THE UNDERSTANDING THAT APPLICATIONS FROM CURRENT RESIDENTS WILL ALWAYS BE TREATED AS A PRIORITY. UNDER THIS PROPOSAL, HPAP APPLICATIONS WOULD BE ACCEPTED FROM:

➤ **NON-RESIDENTS WHO HAVE BEEN EMPLOYED WITHIN THE DISTRICT'S LIMITS FOR AT LEAST ONE YEAR PRIOR TO APPLICATION. THE DISTRICT HAS A VESTED INTEREST IN ENCOURAGING RESIDENCY FOR THOSE WHO WORK IN THE DISTRICT BUT NOW PAY THEIR INCOME TAXES ELSEWHERE; AND**

➤ **HOUSEHOLDS WHO HAVE NOT RESIDED IN THE DISTRICT IN THE PAST YEAR, BUT HAVE A PRIOR HISTORY OF HAVING RESIDED IN THE DISTRICT FOR AT LEAST THREE CONSECUTIVE YEARS AS AN ADULT.**

OF COURSE, ALL OTHER HPAP PROGRAM REQUIREMENTS (INCOME, STATUS AS A FIRST-TIME HOMEBUYER, ETC.) WILL BE REQUIRED OF THESE ADDITIONAL HOUSEHOLDS ELIGIBLE TO APPLY FOR HPAP ASSISTANCE UNDER THE PROPOSED CHANGES.

OTHER MINOR AMENDMENTS TO THE EXISTING HPAP REGULATIONS ARE INCLUDED IN THE PROPOSED REVISIONS, BUT MY INTENTION IN THESE PREPARED REMARKS IS TO HIGHLIGHT ONLY THE MOST SIGNIFICANT CHANGES.

I SHOULD NOTE THAT THE PROPOSED CHANGES TO THE HOME PURCHASE ASSISTANCE PROGRAM ARE PART OF A STRATEGIC INITIATIVE OF THE DEPARTMENT TO INCREASE OVERALL THE EFFECTIVENESS OF PUBLICLY-FUNDED ASSISTANCE TO FIRST-TIME HOMEBUYERS. AS YOU KNOW FROM MY TESTIMONY BEFORE THIS COMMITTEE ON MARCH 2, DHCD IS INTRODUCING A PROGRAM THAT WILL REDUCE THE INTEREST RATE ON FIRST TRUST MORTGAGES FOR FIRST TIME HOMEBUYERS.

WE HOPE THAT A REVITALIZED HPAP PROGRAM, IN COMBINATION WITH A LOW INTEREST FIRST MORTGAGE PRODUCT, WILL GREATLY RESTORE THE DEPARTMENT'S ABILITY TO ASSIST LOW- AND MODERATE-INCOME HOUSEHOLDS TO REALIZE THE OPPORTUNITY FOR HOMEOWNERSHIP IN THE DISTRICT OF COLUMBIA.

CHAIRPERSON AMBROSE, THIS CONCLUDES MY TESTIMONY. THE STAFF AND I ARE AVAILABLE TO ANSWER ANY QUESTIONS THAT YOU OR MEMBERS OF THE COMMITTEE MAY HAVE ABOUT THE PROPOSED AMENDMENTS TO THE REGULATIONS GOVERNING THE HOME PURCHASE ASSISTANCE PROGRAM. THANK YOU.